

Department of Social and Health Services

DP Code/Title: M2-9M Medical Inflation

Agency Wide

There are 4 Programs in this DP

Budget Period: 2003-05 Version: 11 2003-05 Agency Request Budget

Recommendation Summary Text:

Program(s): 020 030 040 080

This item funds inflation applicable to professional medical services and supplies purchased by the Department of Social and Health Services (DSHS) programs as an integral component of services provided to agency clients.

Fiscal Detail:

Operating Expenditures

	<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Overall Funding			
001-1 General Fund - Basic Account-State	1,755,000	3,609,000	5,364,000
001-2 General Fund - Basic Account-Federal	230,000	468,000	698,000
001-7 General Fund - Basic Account-Private/Local	85,000	174,000	259,000
001-C General Fund - Basic Account-DSHS Medicaid Federa	1,355,000	2,785,000	4,140,000
Total Cost	3,425,000	7,036,000	10,461,000

Staffing

Package Description:

Program(s): 020 030 040 080

The general inflation rate for medical services is estimated to average 4.4 percent annually over the 2003-05 Biennium. This estimate represents a composite rate comprised of changes in costs for a number of medical services and supplies. In this request, DSHS is making a distinction between the component or components of medical care (i.e. physicians, hospitals, drugs) and has applied corresponding estimated inflation rates for these services. The medical care services/goods and corresponding rates by program are as follows:

Medical Care Inflation = 4.4 percent
(US BLS CPI-U - Seattle-Tacoma-Bremerton, WA MSA - 2001)

Physician Services = 3.6 percent
(US BLS CPI-U - U.S. City Average - 2001)

Hospital Services = 3.1 percent
(CMS Hospital Prospective Reimbursement Market Basket - 2nd Quarter 2004 Forecast - DRI)

Drugs = 5.4 percent
(US BLS CPI-U - U.S. City Average - 2001)

Washington Medicaid Hospital Services = 6.3 percent
(Managed Care Rates - DSHS MAA Forecast)

Health Insurance Premiums = 12 percent
(Office of Financial Management)

Narrative Justification and Impact Statement

How contributes to strategic plan:

Program(s): 020 030 040 080

Necessary medical services for DSHS clients will continue to be available at present program levels.

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Performance Measure Detail

Goal: 08Z DSHS clients maintain or improve their health.

Incremental Changes

FY 1

FY 2

No measures submitted for package

Program: 020

**Goal: 08B Build stronger continuum of care for juveniles & families
with the justice system**

Incremental Changes

FY 1

FY 2

No measures submitted for package

Program: 030

**Goal: 04C Ensure public mental health works for most seriously,
chronically, mentally ill**

Incremental Changes

FY 1

FY 2

No measures submitted for package

Program: 080

Goal: 10H Assure access to high quality health care

Incremental Changes

FY 1

FY 2

No measures submitted for package

Reason for change:

Program(s): 020 030 040 080

Recognition of these medical inflation costs will facilitate the department's ability to continue providing clients with current levels of service.

Impact on clients and services:

Program(s): 020 030 040 080

Funding will assure that affected client populations will get appropriate medical care at levels that are presently available.

Impact on other state programs:

Program(s): 020 030 040 080

All DSHS programs that provide medical services would be impacted.

Relationship to capital budget:

Program(s): 020 030 040 080

None

Required changes to existing RCW, WAC, contract, or plan:

Program(s): 020 030 040 080

None

Alternatives explored by agency:

Program(s): 020 030 040 080

No alternatives are proposed. The services involved require the expertise of qualified medical providers at specified costs. Generally, costs are related to medical examinations, lab tests, radiology, and other ancillary services.

Budget impacts in future biennia:

Program(s): 020 030 040 080

General medical inflation is currently projected at a per annum rate of 4.4 percent, with higher rates for some components such as drugs and hospitals.

Distinction between one-time and ongoing costs:

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Program(s): 020 030 040 080

These are all ongoing costs.

Effects of non-funding:

Program(s): 020 030 040 080

Medical service providers may choose not to renew contracts with DSHS, charge higher rates for services to other populations of DSHS clients, and/or reduce the number of services they are willing to provide in an attempt to balance costs with available reimbursement. These actions could impact client access to care and the quality of the care received.

Programs may attempt to cut costs/services in other areas in order to fund medical inflation-related incremental costs.

Expenditure Calculations and Assumptions:

Program(s): 020

Adequate reimbursement is essential to maintaining a cadre of qualified providers who are willing to provide required services. This step will allow adequate payment levels to continue to meet JRA's provider needs for youth in DSHS custody.

JRA determined the historical rate of increase to medical expenditures. The portion of that increase attributed to inflation is entered in this package. The remainder is entered in the Medication Utilization Request.

See attachment - JRA M2-04 Medical Inflation.xls

Program(s): 030

This step requests an inflation increase of 4.4 percent for State Hospital general medical costs, 5.4 percent for State Hospital pharmacy costs, and 6.3 percent for community inpatient costs.

This request is not duplicative of costs in the vendor rate base, nor does it include amounts for medical inflation related to forecasted programs.

See attachment - MHD M2-9M Medical Inflation.xls

Program(s): 040

Residential Habilitation Centers (RHCs) purchase pharmaceuticals, medical supplies, adaptive equipment, and medical professional contracts to provide services to developmentally disabled clients. Medical services costs have steadily increased every year. Forty-seven percent of the increase is related to prescription and non-prescription medications, and the remainder is for contracted medical providers, including physicians, psychiatrists, occupational and physical therapists, and dental care. State staff provides routine medical services, and emergent care is purchased from local hospitals/physicians.

Assumptions:

- General medical inflation of an average of 8 percent per annum for the biennium.
- Medical services impacted are not subject to entitlement program coverage.
- Medical services exclude the costs related to certain psychotropic and other pharmaceuticals.

See attachment - DDD M2-9M Medical Inflation.xls

Program(s): 080

For the Medical Assistance Administration, the proposed inflation adjustment is limited to the costs of physician services that support the disability determination process in the Division of Disability Determination Services (DDDS).

This step requests an inflation increase of 3.6 percent per year, anticipating the projected growth in costs related to purchased physicians medical services (examinations, testing, etc.) that support DDDS disability determinations. This request does not include amounts for medical inflation related to forecasted programs or pharmaceuticals.

Physicians and other medical professionals provide services to meet the requirements of the disability determination process. Adequate reimbursement is essential to maintaining a cadre of qualified providers who are willing to provide these required services. This step will allow adequate payment levels to continue to meet DDDS' needs in this regard.

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Assumptions:

- Physician services medical inflation of an average of 3.6 percent per annum for the biennium.
- The medical services impacted are not subject to entitlement program coverage.
- Medical services exclude the costs related to certain psychotropic and other pharmaceuticals.

See attachment - MAA M2-9M Medical Inflation.xls

<u>Object Detail</u>	<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Overall Funding			
E Goods And Services	915,000	1,864,000	2,779,000
N Grants, Benefits & Client Services	2,510,000	5,172,000	7,682,000
Total Objects	3,425,000	7,036,000	10,461,000

DSHS Source Code Detail

<u>Overall Funding</u>	<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Fund 001-1, General Fund - Basic Account-State			
<u>Sources</u> <u>Title</u>			
0011 General Fund State	1,755,000	3,609,000	5,364,000
<i>Total for Fund 001-1</i>	1,755,000	3,609,000	5,364,000
Fund 001-2, General Fund - Basic Account-Federal			
<u>Sources</u> <u>Title</u>			
001B Social Security Disability Ins (100%)	230,000	468,000	698,000
<i>Total for Fund 001-2</i>	230,000	468,000	698,000
Fund 001-7, General Fund - Basic Account-Private/Local			
<u>Sources</u> <u>Title</u>			
5417 Contributions & Grants	85,000	174,000	259,000
<i>Total for Fund 001-7</i>	85,000	174,000	259,000
Fund 001-C, General Fund - Basic Account-DSHS Medicaid Federa			
<u>Sources</u> <u>Title</u>			
19TA Title XIX Assistance (FMAP)	1,355,000	2,785,000	4,140,000
<i>Total for Fund 001-C</i>	1,355,000	2,785,000	4,140,000
Total Overall Funding	3,425,000	7,036,000	10,461,000

Funding Totals by Program

Dollars in Thousands

	<u>FTE's</u>		<u>GF-State</u>		<u>Total Funds</u>	
<u>Program</u>	<u>FY 1</u>	<u>FY 2</u>	<u>FY 1</u>	<u>FY 2</u>	<u>FY 1</u>	<u>FY 2</u>
020 Juvenile Rehabilitatn Admin	0.0	0.0	53	110	53	110
030 Mental Health	0.0	0.0	1,530	3,153	2,809	5,789
040 Div of Developmntl Disab	0.0	0.0	161	323	322	646
080 Medical Assistance	0.0	0.0	11	23	241	491
Grand Total:	0.0	0.0	1,755	3,609	3,425	7,036